# STATE of MINNESOTA

EXECUTIVE DEPARTMENT

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**Testimony**

**U.S. House of Representatives**

**Agriculture Committee**

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## I. Introduction

Chairman Goodlatte, members, it is my honor to be here today.

The Congress is about to make a crucial decision regarding the Renewable Fuels Standard. The difference between a five billion gallon level and an eight billion gallon level may not seem that significant, but you are a whole lot more comfortable with billions here than we are in Minnesota. The decision you make can propel us toward an energy future that not only strengthens our economy but our security as well. I will share my observations on ethanol and the ways in which the federal government can help maximize its benefits for our country.

The president has shown excellent leadership in pursuing our renewable energy fuel future. His departments of Energy and Agriculture have provided good scientific and technical support to the development of renewables. We need to capitalize on that leadership.

The states have been called the laboratories of democracy. I came out here to tell you about our fabulously successful experiment with renewable fuels. With the leadership of people like Representative Gutknecht, we are achieving great things.

Minnesota has no oil, natural gas, or coal deposits. We imported most of our energy – that is until we got into renewables. Now we are little by little gaining a share of our independence. It's a success story the nation should embrace.

## II. Minnesota's Experience with Ethanol

Minnesota's investment in ethanol has been a huge success. It has strengthened our rural economy, it has improved our air quality, and it has reduced our reliance on foreign oil.

Our investment started more than two decades ago, in the early 1980s. By the early 1990s, we had passed a law requiring that most gas sold in the Minneapolis-St. Paul metropolitan area contains a 10 percent blend of ethanol during the winter months. This requirement was designed to improve our air

during the winter months. This requirement was designed to improve our air quality. In 1995, the requirement went year-round, and in 1997 it expanded to include the entire state.

In addition to our distinction as the first state to require ethanol-blended gasoline, Minnesota is remarkable in that our ethanol industry is dominated by a collection of local farmer-owned cooperatives. This ensures that the economic benefits are spread throughout the rural communities where the plants are located.

Minnesota has 14 ethanol plants, with two more under construction. All told, these plants produce more than 450 million gallons of ethanol every year. The ethanol plants support more than 5,000 Minnesota jobs and generate $1.3 billion for our state economy.

Minnesota corn growers send approximately 15 percent of their crop to ethanol plants, and that increases the prices they get for their crops. Specifically, Minnesota Department of Agriculture experts tell me the local cash price for corn in areas near ethanol plants tends to be 7 to 10 cents higher per bushel than it otherwise would be.

Minnesota's environment also benefits from our use of ethanol. Studies have shown blending ethanol into gasoline helps reduce fine particulate emissions. The use of ethanol in our gas is one reason the American Lung Association

recently praised Minnesota for its "green" energy policies. As the Association pointed out, Minnesota has the highest per capita renewable fuel use in the nation. Not coincidentally, we're also one of the few states with every county recording an acceptable ozone level.

Beyond the economic and environmental benefits of our ethanol use, there is another benefit that has become increasingly important in recent years. By replacing 10 percent of our conventional gasoline with homegrown ethanol, we are reducing our reliance on foreign oil.

According to the Renewable Fuels Association, America currently imports petroleum to meet about 62 percent of its needs. By 2025, it is projected that we will import 77 percent of our petroleum. Despite progress with renewable fuels, the nation's economic security and quality of life still depend too much on oil from the Middle East. Right now, a good portion of our oil comes from other regions, but two-thirds of the world's remaining known oil reserves are located in Middle Eastern countries. Pair these supply concerns with a rapid increase in demand for oil in emerging countries like China and India, and you have a recipe for sky-high prices. I am convinced that for the sake of our long-term economic stability, we must start breaking this unhealthy dependence. Minnesota is showing the way by using more homegrown ethanol.

Despite some early concerns in the 1990s, Minnesotans have embraced ethanol and its benefits. We lead the nation in the use of renewable fuels, boasting the

Minnesotans now drive flexible-fuel cars designed to burn either gasoline or E-85 (an 85 percent ethanol blend). We have North America's largest network of retail stations selling E-85 -- nearly 150 at last count. In fact, to help expand that network, our State Legislature just allocated $500,000 for grants to help filling stations cover the cost of adding E-85 pumps.

## III. Taking Minnesota to the Next Level

As much as we've accomplished, we want to do even more. In May, I signed into law a bill that will double the amount of ethanol in gasoline in Minnesota by increasing the ethanol content from 10 percent to 20 percent by 2013. I first proposed this so-called "E-20" bill last September as a way to take Minnesota to the next level of renewable energy. This proposal received strong bipartisan support in the Minnesota Legislature.

There are several ways we can reach this goal of 20 percent market share for ethanol. One is to increase the use of E-85 by promoting flexible-fuel vehicles, and making sure that those consumers who buy flex-fuel vehicles are aware that they can use E-85. The second way we can reach this goal is by increasing to 20 percent the amount of ethanol blended into the regular gas sold in Minnesota. This would require getting a waiver from the Environmental Protection Agency, and to get that, we may need to conduct research on the impacts (or lack of impacts) of 20 percent ethanol blends on conventional cars and trucks. This is an

area where I am hopeful our partners in the auto industry and the renewable fuels industry will be able to help us.

Going to E-20 is a logical next step for Minnesota. Doubling our ethanol use doubles our benefits, including a stronger rural economy, cleaner air, and reduced dependence on foreign oil. It also puts our state at the leading edge of a very promising industry, and it gets us closer to the goal I set of making Minnesota the Saudi Arabia of renewable fuels. Economic studies from our state agriculture department show that going to E-20 in Minnesota could boost ethanol's economic impact to $1.58 billion and 6,157 jobs.

And, our renewable energy focus goes beyond ethanol. Later this summer, Minnesota will implement a provision requiring a 2 percent blend of biodiesel in almost all diesel fuel sold in the state. As you know, biodiesel is to soybeans what ethanol is to corn, and biodiesel offers many of the same economic and environmental benefits.

## IV. Expanding the Benefits Nationwide

Given our great success with ethanol in Minnesota, I was honored to be named chair of the Governors' Ethanol Coalition (GEC). The GEC is a group of 31 states from coast to coast dedicated to increasing ethanol use and decreasing the nation's dependence on imported energy.

My goal as chair is to raise the visibility of ethanol as a viable and beneficial fuel additive, and to work for federal energy policies that benefit expanded production and use of renewable energy. I also want to get the other 49 states to use E-10, as we do in Minnesota.

There's no reason why we can't expand the benefits of ethanol to all 50 states. Plants are expanding across the country -- 12 new plants were built last year resulting in a total of 3.9 billion gallons of U.S. ethanol production. With 16 new plants under construction across the U.S. and three major plant expansions underway, production capacity will expand to 4.9 billion gallons of ethanol by the end of 2005.

In addition to encouraging other states to make the move to ethanol, another priority for me at the GEC is to push for greater support of ethanol and other renewable fuels at the federal level.

Minnesota's success with renewable energy would not have been possible without strong leadership and support over the years from elected officials in St. Paul. We need that same strong leadership and support in Washington, D.C., if we are to expand the benefits nationwide. At a time of skyrocketing oil prices and increasing international energy demand, it is critical that Congress pass an energy bill with a strong renewable fuels component.

In the past year, the GEC developed recommendations to increase the production of ethanol from a variety of feedstocks. Those recommendations were published in a GEC report titled "Ethanol From Biomass: America's 21st Century Transportation Fuel."

We are grateful to note that many of our recommendations were incorporated into legislation (H.R. 3081) introduced by Congressman Gutknecht with the support of Chairman Goodlatte, Ranking Member Peterson, and other members. The recommendations were also incorporated into a Senate bill.

Just recently, the GEC sent a letter to conference committee members asking for support of three critical recommendations.

First, we advocated for the Senate's Renewable Fuels Standard of eight billion gallons by 2012. The House passed language calling for a five billion gallon standard, but with ethanol production increasing by more than 600 million gallons a year, this is a level we could exceed by the end of next year -- nearly seven years before 2012. We believe the time has come for America to set its sights even higher.

Adopting the eight billion gallon RFS would mean more than 214,000 new jobs across the country. We would also replace more than 1.6 billion barrels of foreign oil with home-grown ethanol. For farmers, the eight billion gallon RFS

would increase the demand for grain by an average of 1.4 billion bushels over the next decade.

Second, we advocated for a targeted investment in research to figure out how to more efficiently make ethanol from a wider range of biomass inputs such as corn stover, grasses, and wood wastes. The Senate energy bill has language in Senate Amendment 919 calling for that research, and we strongly support it. Unfortunately, no such language exists in the House bill.

Third, we pointed out to Congress the need to create more financial incentives for the production of cellulosic-derived ethanol and other biofuels until these new processes become part of the mainstream production of ethanol. This step, along with the research funding I mentioned, will help ensure the long-term viability of ethanol by allowing other regions of the country to more fully experience the benefits the industry has to offer. Again, Senate Amendment 919 includes language to this effect.

These measures are important if we are to expand the benefits of ethanol production in the corn belt and beyond. After all, the best way to ensure broad support for renewable fuels is to make sure they are more than just a regional industry, and that the benefits are truly national in scope.

I know there will be some who ask what impact the increased use of corn for ethanol will have on the availability and price of animal feed. This question has

particular importance for Minnesota, which ranks among the top ten states in dairy, pork, and turkey production.

In response to the question, I should point out that even in Minnesota, the nation's leader in per capita ethanol consumption, we still use less than 20 percent of our corn crop for ethanol. And those bushels of corn that go into ethanol plants are not lost entirely as feed. As you know, one of the co-products of ethanol production is a feed product called dried distillers grains. Dried distillers grains (DDGs for short) are a nutritious livestock feed that many Minnesota farmers incorporate into their animals' rations. I am told that livestock do well on the feed, and the price is very competitive.

As is often the case with ethanol and other renewable fuels, the end result of DDG production is a win-win. Not only do these farmers (and their livestock) benefit from having access to high-quality feed, but the ethanol plants benefit from having another reliable revenue stream through the sale of DDGs to farmers. Last year, Minnesota's ethanol plants sold $627 million worth of ethanol. They also sold $145 million worth of DDGs to farmers. According to a 2003 University of Minnesota study, the sale of DDGs can contribute up to 20 percent of the total operating revenue of an ethanol plant. This extra source of income helps make Minnesota's small, farmer-owned plants more financially stable and profitable.

## V. Closing

In order to do an effective job of representing our people, we all need to be students of history, especially the history of technology. Every new technology that comes along has its disruptive effects and therefore its critics.

A relative of the Wright Brothers, a couple of generations before them, said railroads were dangerous because the human body would fall apart if it traveled more the 40 MPH.

Alexander Graham Bell had a terrible time finding a customer who could imagine a use for his crazy telephone invention.

When the Apple folks got going, their efforts were met with this derisive question: "Why would anybody want a computer in their home?"

Ethanol and renewable fuels are a revolutionary technology. Stephen Covey taught us to seek win-win situations. Ethanol and renewables are a win-win-win-win-win situation. Cleaner air. Jobs for rural America. Higher farm income. Lower energy prices. And greater energy independence.

All great public policy ideas go through three stages: 1) It will never work; 2) It costs too much; and, 3) I thought it was a great idea all along.

The Minnesota experience proves ethanol and renewable fuels are legitimate. I hope you have the courage to push the envelope and approve the eight billion gallon level. It doesn't pay to drag your heels when you are chasing the future.